

STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL  
RELATIONS  
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT  
UNITED STATES HOUSE OF REPRESENTATIVES

"PUBLIC HOUSING RESIDENT INITIATIVES"

FEBRUARY 29, 1996

Chairman Shays, and members of the Subcommittee, as a follow-up to your hearing of November 9, 1995, I am here today to report on the Office of Inspector General (OIG) review of the National Tenants Organization's (NTO's) August 1995 convention in San Juan, Puerto Rico.

OIG REVIEW OBJECTIVES AND METHODOLOGY

The objectives of our review were to determine: (1) the nature and extent of convention participation, costs and funding sources, (2) HUD's role in planning and conducting the convention, and (3) the propriety and benefits of HUD supported participation in convention related activities.

To pursue our objectives, we subpoenaed all NTO records on the convention. NTO's subpoena responses indicated that adequate records on convention participation, revenue and expenses were not maintained or available. Therefore, it was necessary to reconstruct estimates of such activities from alternative sources. Relevant records were obtained from HUD, the convention hotels, convention attendees, the Puerto Rico Housing Authority (PRHA) as the co-sponsor of the convention, and PRHA contractors who were found to support convention activities. NTO bank account records were also subpoenaed and reviewed. In addition, we interviewed HUD, PRHA, and PRHA contractor officials, as well as 169 PHA resident attendees of the convention. We attempted to interview NTO's Chairwoman, but were not afforded the opportunity. Available video and audio tapes of actual convention events were obtained and reviewed, along with recordings of three television news stories on the convention by Channel 5 in Atlanta.

NATURE AND EXTENT OF CONVENTION ACTIVITY

Participation, Costs and Funding Sources

Based on our reconstruction of convention activities, we estimate that the convention was attended by 260 persons as follows:

- Convention Speakers, Including	
NTO, HUD, and PHA Officials	32
- PHA Officials in Attendance	34
- PHA Residents in Attendance	194
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- Total Estimated Attendance	260

The cost of the convention is estimated at \$335,000, of which 97% came from federally funded or related sources. Appendix 1 details our estimates of the various sources and uses of funds related to the convention. Most of the NTO Convention expenses were covered by HUD funding sources, contributions or gratuities.

The federal funding sources supporting PHA resident attendance at the convention consisted of direct HUD Tenant Opportunity Program (TOP) grant funds, as well as other HUD grant funds to Public Housing Agencies (PHAs) for operating subsidies and modernization activities. In some cases, PHAs advanced operating subsidies or modernization funds for their residents to attend the convention, under the condition that those funds would be reimbursed by the resident groups when their TOP grant funding was available. This was necessary because resident groups selected for new HUD TOP grants in July 1995 did not have access to their TOP funds in time for the August 1995 NTO convention. New TOP grant recipients aren't given access to their grant funds until they attend required HUD program training to give them a better understanding of their grant management responsibilities and program performance options.

Another source of federally related funding consisted of \$32,000 in contributions to the convention by private project management firms, which had HUD subsidized contracts with the PRHA. Initially, the NTO Convention was being "co-sponsored" by NTO and a private management firm that was under contract with the PRHA to manage portions of its public housing inventory. This management firm paid for the NTO Chairwoman and another NTO official to go to Puerto Rico for a 5 day convention planning tour in November 1994. In May 1995, this firm and a second private management firm deposited \$2,500 at both the El San Juan and Sands Hotels to facilitate NTO's contracting for its August 1995 convention plans. The plans envisioned a convention drawing 1,000 people, with an estimated \$750,000 going for 500 hotel rooms and food expenses.

In the spring of 1995, the PRHA re-competed its contracts for the private management of its public housing inventory, and the two management firm

co-sponsors of the NTO Convention learned their PRHA contracts would not be renewed in June 1995. At that time, the two management firms withdrew as co-sponsors of the NTO convention.

On July 12, 1995, the PRHA's Executive Director announced PRHA as a co-sponsor of the NTO Convention, which was scheduled for August 20-24, 1995. As the co-sponsor, the PRHA Executive Director made an August 9, 1995 written solicitation of \$1,500 contributions to the NTO Convention from each of the newly selected project management firms under contract with the PRHA. Seventeen of the new management firms responded with total contributions of \$25,050. The solicitation requested the management firms to make the contributions from the fees or profits provided for under their PRHA contracts. In our opinion, such solicitations run contrary to HUD regulations at 24 C.F.R. Section 85.36(b)(3), which reads:

"The grantee's or subgrantee's officers, employees or agents will neither solicit nor accept gratuities, favors or anything of value from contractors, or parties to subagreements."

The total management firm contributions of \$30,050, including the \$5,000 from the two original co-sponsors, went into two hotel accounts for use as follows:

El San Juan Hotel and Casino Master Account (\$27,550)

\$24,777 - Covered the cost of 3 luncheons, coffee and a bar account associated with the convention.

2,500 - Was transferred to the NTO Chairwoman's hotel account to cover expenses for herself and guests.

11 - Paid for maid services and tips.

262 - Was withdrawn by the NTO Chairwoman, thereby closing the master account.

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\$27,550 - Total account contributions accounted for.

Sands Hotel and Casino Account (\$2,500)

\$ 507 - Covered the cost of "no-shows" on guaranteed reservations.

1,993 - Remains as a balance in the account.

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\$2,500 - Total account contributions accounted for.

Several PRHA management firms were subsequently called upon to cover an additional \$1,950 of miscellaneous convention expenses, such as local transportation costs for attendees from Puerto Rico.

HUD provided convention handout materials at an estimated cost of \$1,868. The Sands Hotel and Casino provided NTO with \$3,000 worth of free photocopying and mailing services, and the El San Juan Hotel and Casino contributed a free pre-convention planning luncheon and a complimentary suite for the NTO Chairwoman, valued at \$9,309. The going rate for the complimentary suite provided to the NTO Chairwoman was \$850 per night. The suite was provided for nine nights, while the convention only covered 5 days. The only convention related expenses known to have been paid by NTO amounted to \$3,207 for flowers, award plaques, and hotel expenses of NTO guests.

NTO's required convention fee was \$225 for early registrations, and \$300 for registrations made at the convention site. Given that all but \$3,207 of convention costs were covered by funding sources other than NTO, over \$43,000 of the convention fees collected by NTO represented a clear profit on the convention. This profit figure could have been even higher, as it is known that NTO did not collect the required convention fee from many attendees, including over \$13,000 for resident attendees from the PRHA. NTO also raised \$2,605 in membership fees, as NTO membership was stipulated as a requirement for convention attendance. NTO membership is \$50 for each resident council and \$10 for each individual affiliated member of a resident council. It is estimated that NTO acquired up to 50 new resident council members as a result of the convention.

#### Convention Agenda and Content

The agenda for the 1995 NTO Convention is provided in Appendix 2. Convention activities began with a 9:00am "Breakfast Board Meeting" on Sunday August 20, 1995, and were scheduled to conclude 5 days later with an NTO "Business Session and Adjournment" at 12:00 Noon on Thursday August 24, 1995. Our analysis of the convention agenda, materials and hand-outs, video and audio recordings, and eyewitness accounts, found that the actual NTO Convention events consisted primarily of:

- internal NTO organizational business and social activity, and
- political rallying against Republican public housing proposals, and for NTO and HUD supported program proposals.

While HUD's Office of Public and Indian Housing (PIH) officials presented some HUD program related information at the convention, it was general in nature and primarily constituted material already provided or available to attendees through other HUD supported means. Opening day speeches by PIH's Deputy Assistant Secretary for Community Relations and Deputy Director for Program Development centered more on explaining and rallying attendees to support HUD's public housing legislative agenda, than on improving residents' participation in HUD's program implementation.

HUD staff carried the agenda on the second day of the convention, providing general input on organizing resident councils and TOP work plans. Most of the convention attendees were already members of existing resident councils, and were already operating under TOP grant work plans. Many had previously attended similar, or more detailed HUD presentations. The new TOP grant recipients were already required to receive more detailed TOP grant training from HUD, which was later provided in Orlando, Florida from November 28 through December 1, 1995.

HUD officials also participated in the "Town Hall Meeting" session on the third day of the convention. While HUD provided general information on its reinvention activities and the current public housing budgetary and legislative environment, we viewed this session as an open forum to allow convention participants to express their views on public housing issues.

In our interviews of 169 of the PHA resident attendees at the convention, the majority expressed that they found the convention to be informative and beneficial to them personally, but frequent comments were received that the convention was very poorly organized, that the HUD program material duplicated prior presentations, and that the benefits derived were not commensurate with the cost of attendance.

The video recordings of actual convention events show the poor organization and lack of programmatic substance at the convention. One of the most egregious examples of NTO's misrepresentation of the content and substance of its convention agenda was the scheduled 2 hour "Earlybird Workshop" on "Organizing Techniques & Coalition Building." In actuality, this session was a spontaneous, open-mike, fundraising solicitation to purchase a computer for NTO in the name of Jesus. NTO raised \$350 from the PHA residents and other parties attending this session.

The video recordings of convention events also show the political nature of the convention. On the opening day of the convention, a HUD staff person providing English-to-Spanish translation of a speech by NTO's Legislative Committee Chair, refused to further translate because he

believed the political nature of the speech was inappropriate for a federal employee's participation.

## HUD'S ROLE IN PLANNING AND CONDUCTING THE CONVENTION

Our review indicates that HUD officials played a key role in planning and conducting NTO's 1995 National Convention in Puerto Rico. Available correspondence, telephone records, electronic messages and meeting records indicate that the role of PIH's Deputy Assistant Secretary for Community Relations and Involvement (DAS/CRI), and Deputy Director for Program Development, went well beyond that of a customary public official speaking engagement for an outside entity. These PIH officials had frequent communications with NTO's Chairwoman regarding the convention. In our opinion, the nature, frequency and timing of their communications indicate that HUD staff were readily accessible and available to assist the NTO Chairwoman in assuring the feasibility and success of NTO's 1995 National Convention.

When the original co-sponsors of the NTO Convention pulled out in June 1995, the feasibility of the convention appeared in jeopardy. On June 20, 1995, NTO's Chairwoman wrote to the PIH DAS/CRI, enclosing convention material, laying-out her proposed PIH role in NTO's agenda, and requesting his fullest possible support. There were frequent telephone calls among PIH, NTO and PRHA officials in the later part of June 1995. On June 26, 1995, the PIH DAS/CRI hosted a meeting in his Washington DC offices between himself, NTO's Chairwoman, the PRHA Executive Director, and two PRHA Resident Council Presidents. The PRHA paid for the NTO Chairwoman's travel to the meeting.

At the June 26, 1995 meeting, there was an initial private one hour session between the PIH DAS/CRI, the NTO Chairwoman, and the PRHA Executive Director. Afterwards, the meeting included the two Resident Council Presidents. The two Resident Council Presidents have established that NTO's convention agenda and promotional materials were seen by the PIH DAS/CRI at the June 26, 1995 meeting.

The PIH DAS/CRI wrote to the NTO Chairwoman and PRHA Executive Director to confirm the agreements reached at the June 26th meeting. A copy of that correspondence is provided as Appendix 3. This summary of the HUD held meeting shows that HUD was instrumental in: (1) establishing PRHA support as a co-sponsor of the NTO Convention, (2) brokering additional PRHA Resident Council support for NTO's convention, and (3) brokering possible future NTO involvement in PRHA-resident relations.

On July 12, 1995, the PRHA issued a press release announcing its co-

sponsorship of the upcoming NTO Convention in San Juan, and citing the June meeting between PRHA, NTO and the PIH DAS/CRI as a key factor in facilitating this arrangement. This was followed by a July 28, 1995 letter from the PRHA Executive Director to the NTO Chairwoman, which served as PRHA's contractual agreement to: (1) co-sponsor the NTO Convention, (2) pay up to \$30,000 for PRHA residents to attend the convention, and (3) raise \$32,000 in private donations to support the convention.

Even with the PRHA's substantial support as a new co-sponsor, NTO's planned convention in San Juan was in jeopardy of failure for lack of state-side PHA resident participation. In early August 1995, the hotels were expressing concerns over the lack of registrations for the convention. While the convention was advertised as closed to NTO members, it is unknown to us whether NTO's actual pre-convention membership could have possibly sustained the planned 500 hotel room convention. Regardless, it is apparent that NTO relied on HUD for assistance in raising its convention attendance. They requested and received the following from HUD's PIH staff:

- Mailing lists and labels for PHAs and Resident Councils.
- A June 27, 1995 letter from the PIH DAS/CRI establishing attendance at the NTO Convention as an eligible expense under various HUD program funding sources, including TOP grants.
- Communications with Resident Councils and PHAs to clarify convention attendance eligibility.

As an example of the apparent nature of the NTO-HUD relationship, the following are excerpts from NTO's own "Minutes of 8/6/95 Board Meeting Conference Call:"

"There was discussion on the obstacles that Housing Authorities are putting in the way of tenants in their attempts to make arrangements for the NTO Convention; and tenant groups who received TOP grant funds received phone calls that their funds were locked. These actions were taken by Housing Authorities even though Ed Moses has sent out correspondence stating that this training convention is an allowable expense.

Marjorie made a recommendation that the Chairwoman call Ed Moses the next day (8/7/95) to inform him of the problems tenants were running into with the Housing Authorities, in order that he may advise the Executive Directors that tenants have been approved to participate,

and for them to accommodate those wishing to attend. Maxine agreed to make the call early the following morning."

To put this quote in perspective, Ed Moses was the PIH DAS/CRI, Marjorie was an NTO Board Member, and Maxine was the NTO Chairwoman. There is evidence that PIH staff did communicate with various PHAs and Resident Councils to facilitate residents' attendance at the NTO Convention.

As a further indicator of the closeness of the working relationship between PIH staff and the NTO Chairwoman, our review found evidence that PIH staff attempted to coordinate the preparation of HUD and NTO responses to this Subcommittee's inquiries into the NTO Convention and the TOP program, pursuant to the November 9, 1995 hearing.

## PROPRIETY AND BENEFITS OF HUD'S CONVENTION SUPPORT

Fostering the organization of resident groups has been a key focus of PIH's Office of Community Relations and Involvement (OCRI). This has included active participation and support for activities of associations of resident groups, such as NTO. NTO was one of four such national associations which PIH periodically convened as an Ad Hoc Advisory Committee to its resident initiatives program activity.

During 1994 and 1995, HUD's Office of General Counsel (OGC) issued three memoranda setting forth legal opinions and Departmental policy guidance on limitations on HUD's participation in conferences by non-federal entities. This HUD guidance goes beyond any specific requirements in the Standards of Ethical Conduct for Employees of the Executive Branch, 5 C.F.R. Part 2635, and is generally intended to avoid the appearance of favoritism or potential conflicts of interest. The guidance establishes the following basic requirements for HUD employee participation in conferences sponsored by non-federal entities:

- The employee's supervisor must make a determination that the presentation is in the best interests of the Department. An Assistant Secretary or DAS may make that determination for themselves.
- If the sponsor of an event is a for-profit organization, a written determination is required, and must demonstrate that the gathering is the only avenue for disseminating the information, and that the Department's interest is substantial. A copy of such determinations must be sent to the Ethics Law Division of HUD.
- The Department's participation may not result in sponsoring or promoting the event, without prior approval of the General Counsel.



Event organizers are to be advised not to unduly highlight or emphasize HUD employee participation in any manner which could be construed as to imply a HUD endorsement or sanction of the event. To further this purpose, supervisors are encouraged to review promotional materials, invitations and agendas prior to assigning staff, or themselves, to participate.

- Events charging a registration fee require special consideration to avoid the appearance that HUD is using appropriated funds to support the non-federal entity. In the case of a for-profit, HUD participation will only be permitted if it is documented that the event is the only avenue for disseminating the information, and that the Department's interest is substantial. Participation with non-profits is permitted unless the registration fee is clearly in excess of the services provided by the sponsor. HUD is advised to avoid events which charge registration fees when a large number or percentage of speakers are proposed to come from HUD. This gives the appearance that HUD is financially supporting the event.

Our review found that PIH officials' actions in support of the 1995 NTO Convention were generally not in accordance with the above HUD guidelines for acceptable participation in the conference of a non-federal entity.

First, PIH did not establish NTO's status as a for-profit or a non-profit. In fact, they had no detailed information on the nature of NTO and its membership. PIH staff generally assumed that NTO was a legitimate non-profit, representing a substantial portion of the residents of public housing. We were advised that PIH has generally not verified the status of other organizations for which it provides conference participation.

NTO was unwilling to provide us its membership rolls, and did not provide evidence of its financial standing, or its legal organizational standing during the time of its convention activities. PIH apparently never asked for this information.

As part of our review, we determined that NTO had no apparent legal status as an organization in 1995. Our check with the Internal Revenue Service (IRS) found that NTO was listed as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code, based in part on its establishment of non-profit corporate status in the District of Columbia (DC) in 1972. However, our check of DC's corporate records found that NTO's status had been revoked in 1981, for failure to file required financial statements. In December 1995, NTO provided us evidence that it had just established corporate status as a non-profit in

the State of Florida, four months after the HUD supported convention. It appears that the NTO Chairwoman's previous participation and benefit from PIH's resident initiatives was more technically that of a private individual.

We believe PIH officials had special reason to inquire further into the NTO organization, but failed to do so. In April 1994, PIH became aware that the NTO Chairwoman was being proposed for debarment as the President of the National Tenants Information Service (NTIS), for irregularities during NTIS' tenure as the mortgagor and manager of a HUD FHA multifamily housing project. The pending case cited NTIS with a: (1) failure to maintain the project in good repair and condition, (2) failure to maintain required books and records on project operations, and (3) failure to submit required financial statements for 5 consecutive years. PIH requested a legal opinion from HUD's OGC to ascertain if the pending action should preclude them from participating in future NTO workshops, and from continuing NTO's ad hoc advisory role.

On April 26, 1994, HUD's OGC advised PIH that there was no legal basis requiring the discontinuance of their relations with NTO, pending the final determination of the debarment case. However, OGC cautioned PIH on the significance of the proposed debarment action, and recommended "that Department participation in the NTO workshops be tempered by this consideration."

In November 1994, the President of NTIS signed a settlement agreement calling for a two year voluntary exclusion from owning or managing projects insured or held by HUD, and for owning or managing projects assisted by HUD, for a period beginning on November 10, 1994. This action had no impact on PIH's continued relations and support for NTO.

In summary:

- NTO had no legal status as a non-profit or for-profit corporation,
- NTO charged registration and membership fees, and HUD's heavy role in the proposed convention agenda gave the appearance that PIH was financially supporting this non-federal entity with appropriated federal funds,
- NTO's Constitution and By Laws establish that its National Convention is the final policy-making body of the NTO, as well as the forum for election of NTO's officers -- both of which are inappropriate activities for federal participation,

- NTO and its co-sponsor, PRHA, prominently used the names and titles of HUD officials proposed to appear at the convention in its promotional and marketing materials,
- PIH clearly had other avenues for disseminating the general program information to be presented at the convention,
- The Department's interests in the NTO National Convention were clearly not substantive, and
- The nature of NTO's promotion of the convention as a vacation and a political rallying event was inappropriate for HUD participation.

As a result of our review, we have the following recommendations:

1. HUD needs to strengthen its internal controls to better assure adherence to its policies on participation in outside conferences and conventions.
2. HUD should send an advisory/reprimand to the governing body for the PRHA regarding the improper solicitation of contractor contributions by the PRHA Executive Director.
3. HUD should sever all relations with NTO until such time as NTO demonstrates: the legitimacy of its non-profit status, the adequacy of its financial management controls, and the nature and extent of its constituency base.
4. HUD needs to strengthen internal controls to assure that individuals and entities debarred or excluded for performance problems in one HUD program area aren't afforded opportunities to repeat similar behavior in other program areas.

Mr. Chairman, that concludes my prepared remarks on the OIG's review of the 1995 NTO National Convention. I stand ready for the Subcommittee's questions.

## Appendix 1

### SOURCES AND USES OF FUNDS

#### Estimated Conference Funding Sources

FUNDING SOURCES	TOTAL COST
PHAs (e.g., Operating Subsidy,	

Comprehensive Grant)	\$203,241	
TOP GRANTS	85,437	
PRHA Management Agent Contributions		32,000
HUD	5,646	
NTO	3,207	
Other (e.g., private attendees)	5,863	
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TOTAL	\$335,394	

#### Estimated Uses of Funds

COST AND FEE CATEGORIES	DOLLAR AMOUNTS	
FOOD & BEVERAGE (1)	\$24,778	
CONFERENCE HANDOUTS (2)	1,868	
PARTICIPANT TRAVEL	102,048	
PARTICIPANT PER DIEM	63,042	
PARTICIPANT HOTEL LODGING	84,484	
PARTICIPANT NTO CONFERENCE FEES	47,040	
PARTICIPANT NTO MEMBERSHIP FEES (3)	3,655	
NTO RELATED COST (4)	6,224	
HOTEL ACCOUNT BALANCES	2,255	
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TOTAL	\$335,394	

- (1) The cost of food and beverages provided at the convention was covered by PRHA management agent contributions.
- (2) Convention handouts were programmatic materials supplied by HUD.
- (3) \$1,050 of the membership fees collected were refunded to Detroit resident councils who erroneously paid the \$50 membership fee for individual attendees instead of the \$10 affiliate fee.
- (4) The NTO related cost is comprised of hotel expense for guests, as well as for flowers and plaques.

#### Appendix 2

#### NTO 1995 National Convention August 20th - 24th, 1995 Agenda

SUNDAY, AUGUST 20TH

TIME	TOPIC	PARTICIPANT
9:00AM - 11:00AM	- Breakfast Board Meeting	NTO
10:00AM - 11:00AM	- Devotional Service	NTO
12:00PM - 1:00PM	- Chairwoman's Luncheon	HUD/NTO
2:00PM - 4:00PM	- Opening Session/Conference Overview	NTO/HUD/PRHA
4:00PM - 5:00PM	- Granny's Gang	NTO
5:00PM - 6:00PM	- State Meetings	NTO

#### MONDAY, AUGUST 21ST

TIME	TOPIC	PARTICIPANT
7:00AM - 9:00AM	- Early Bird Workshop	NTO
10:00AM - 12:00PM	- The Future of TOP and Resident Programs	HUD
	- Tenant Participation/Organizing Resident Councils	HUD/PRHA
	- Economic Development/Section 3	HUD
12:00PM - 1:00PM	- Lunch Break (on your own)	
1:00PM - 4:00PM	- TOP Work Plan	HUD/PRHA
	- Homeownership	HUD/PRHA
4:00PM - 5:00PM	- Regional Meetings	NTO

#### TUESDAY, AUGUST 22ND

TIME	TOPIC	PARTICIPANT
10:00AM - 12:00PM	- The Future of Public Housing	HUD/PRHA
	- Resident Management	
12:00PM - 2:30PM	- Women's Luncheon	
3:00PM - 5:00PM	- Town Hall Meeting Continues	

#### WEDNESDAY, AUGUST 23RD

TIME	TOPIC	PARTICIPANT
8:00AM - 10:00AM	- Security Workshop	PRHA/NTO
12:00PM - 2:00PM	- Awards Luncheon (Guest Speaker)	
2:00PM - 5:00PM	- NTO Elections	CANCELLED
6:00PM - 8:00PM	- Installation of New Officers and Board Reception	CANCELLED

#### THURSDAY, AUGUST 24TH

TIME	TOPIC	PARTICIPANT
8:00AM - 10:00AM	- Board Meeting Breakfast	NTO
10:00AM - 12:00PM	- Business Session and Adjournment	

